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November 22, 2004

VIA HAND DELIVERY

Mr. George N. Dorn, Jr.
Executive Director
Public Service Commission of South Carolina
Synergy Business Park, Saluda Building
101 Executive Center Drive
Columbia, SC 29210

**Re: Cognigen Networks, Inc.
File No. 03496-0001**

Dear Mr. Dorn:

On August 16, 2004 Cognigen Networks, Inc. filed an Application for Authorization with the Commission which contained the company's financial information for the 2nd Quarter as Exhibit D. Enclosed for the Commission's consideration please find the company's most recent financial statements filed with the SEC as Supplemental Exhibit D, SEC Form 10-QSB/A for the period ending September 30, 2004.

Please stamp the extra copies provided as proof of filing and return them with our courier. Should you have any questions, please have someone on your staff contact me.

Very truly yours,

ROBINSON, MCFADDEN & MOORE, P.C.

Bonnie D. Shealy

BDS/mfc

Enclosures

cc/enc: Thomas S. Smith, (via e-mail)
Patrick D. Crocker, Esquire (via e-mail)
Beth Ronfeldt, (via e-mail)

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

IN THE MATTER OF:)

THE APPLICATION OF COGNIGEN)
NETWORKS, INC. CERTIFICATE)
OF PUBLIC CONVENIENCE AND)
NECESSITY TO TRANSACT THE)
BUSINESS OF A RESELLER OF)
INTEREXCHANGE)
TELECOMMUNICATIONS SERVICES)
AND FOR APPROVAL OF ITS INITIAL)
TARIFF)
_____)

Docket No. _____

**SUPPLEMENTAL EXHIBIT D
3RD QUARTER FINANCIAL
INFORMATION OF
COGNIGEN NETWORKS, INC.**

10QSB/A 1 form_10qsba-093004.htm

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB/A

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2004

OR

() TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE EXCHANGE ACT
For the transition period from to

Commission File Number 0-11730

COGNIGEN NETWORKS, INC.

(Exact name of small business issuer as specified in its charter)

Colorado

(State or other jurisdiction of
incorporation or organization)(I.R.S. Employer
Identification No.)6405 218th Street SW, Suite 305
Mountlake Terrace, WA 98043
(Address of principal executive offices)(425) 329-2300
(Issuer's Telephone number)

N/A

(Former name, former address and former fiscal year, if changed since last report)Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
-----APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARSCheck whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Outstanding at

Class

October 30, 2004

Common Stock, \$.001 par value

8,753,972

Transitional Small Business Disclosure Format (Check one): Yes _____ No X

COGNIGEN NETWORKS, INC.

Commission File Number: 0-11730
Quarter Ended September 30, 2004

FORM 10-QSB/A

Part I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Unaudited Consolidated Statements of OperationsConsolidated Balance SheetsUnaudited Consolidated Statement of Changes in Stockholders' DeficitUnaudited Consolidated Statements of Cash FlowsNotes to Unaudited Consolidated Financial StatementsItem 2. Management's Discussion and Analysis or Plan of OperationItem 3. Controls and Procedures

Part II - OTHER INFORMATION

Item 1. Legal ProceedingsItem 6. Exhibits and Reports on Form 8-KSignatures

COGNIGEN NETWORKS, INC.

Unaudited Consolidated Statements of Operations

Part I - Financial Information

Item 1. Financial Statements

See notes to unaudited consolidated financial statements.

September 30,	June 3
2004	2004
-----	-----
Unaudited	

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Current assets

Cash	\$ 132,177	\$ 213,
Accounts receivable, net	498,621	481,
Commissions receivable, net	782,974	773,
Inventory	13,639	15,
Other current assets	50,400	52,
	-----	-----
Total current assets	1,477,811	1,535,
	-----	-----

Non-current assets

Property, plant and equipment, net	17,314	16,
Deposits and other assets	85,937	60,
	-----	-----
Total non-current assets	103,251	77,
	-----	-----

Total assets	\$ 1,581,062	\$ 1,612,
	=====	=====

Liabilities and Stockholders' Deficit

Current liabilities

Accounts payable	\$ 645,813	\$ 670,
Accrued liabilities	344,544	444,
Commissions payable	812,407	811,
Current portion of deferred commissions	511,200	511,
Receivables financing arrangement	270,725	308,
Other current liabilities	9,532	1,
	-----	-----
Total current liabilities	2,594,221	2,747,

Deferred commissions less current portion	114,799	237,
Other long-term liabilities, including accrued dividends	77,703	68,
	-----	-----
Total liabilities	2,786,723	3,052,
	-----	-----

Stockholders' deficit

Preferred stock no par value, 20,000,000 shares authorized, 500,000 shares issued and outstanding, \$1.00 per share liquidation preference	450,000	450,
Common stock \$.001 par value, 300,000,000 shares authorized; 8,753,972 issued and outstanding as of September 30, 2004 and June 30, 2004	8,754	8,
Additional paid-in capital	11,954,331	11,954,
Accumulated deficit	(13,618,746)	(13,853,
	-----	-----
Total stockholder's deficit	(1,205,661)	(1,440,
	-----	-----

Total liabilities and stockholders' deficit	\$ 1,581,062	\$ 1,612,
	=====	=====

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Changes in Stockholders' Deficit
September 30, 2004

	Preferred Stock		Common Stock		Addi Pai Cap
	Shares	Amount	Shares	Amount	
Balances at July 1, 2004	500,000	\$ 450,000	8,753,972	\$ 8,754	\$11,
Net income	-	-	-	-	
Dividends on preferred stock	-	-	-	-	
Balances at September 30, 2004	500,000	\$ 450,000	8,753,972	\$ 8,754	\$11,

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

	Three Months Ended September 30,	
	2004	2003
	Unaudited	Unaudit
Cash flows from operating activities		
Net income (loss)	\$ 244,362	\$ (192,9
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	5,023	23,2
Bad debt expense	15,960	7,8
Other	--	3,0
Changes in assets and liabilities:		
Accounts receivable	(33,489)	(185,8
Commissions receivable, net	(9,806)	(22,9
Inventory	1,904	5,4
Deposits and other assets	(23,703)	7,5
Accounts payable	(24,603)	126,3
Commissions payable	678	202,9
Accrued liabilities	(99,554)	95,9
Other current liabilities	7,894	(1,6
Other	(688)	
	(160,384)	261,7
Net cash provided by operations	83,978	68,8
Cash flows from investing activities		
Capital expenditures	(5,490)	(4,0
Increase in notes receivable	--	(146,6

Net cash used in investing activities	(5,490)	(150,6
	-----	-----
Cash flows from financing activities		
Payments on deferred commissions	(122,547)	(132,0
Decrease in receivables financing arrangement	(37,375)	
Payment on notes payable	-	(25,0
	-----	-----
Net cash used in financing activities	(159,922)	(157,0
	-----	-----
Net decrease in cash and cash equivalents	(81,434)	(238,8
Cash and cash equivalents-beginning of period	213,611	412,9
	-----	-----
Cash and cash equivalents-end of period	\$ 132,177	\$ 174,1
	=====	=====

Supplemental Disclosures of Cash Flow Information and Non-Cash Transactions

Cash payments for interest expense during the three months ended September 30, 2004 and 2003 were \$13,268 and \$25,000, respectively.

The Company accrued dividends on Preferred Stock during the three months ended September 30, 2004 and 2003 of \$10,000 and \$10,000, respectively.

See notes to unaudited consolidated financial statements.

COGNIGEN NETWORKS, INC.

Notes to Unaudited Consolidated Financial Statements September 30, 2004

Note 1 - Description of Business

Cognigen Networks, Inc. (the Company) was incorporated in May 1983 in the State of Colorado to engage in the cellular radio and broadcasting business and to engage in any other lawful activity permitted under Colorado law. In June 1988, the Company changed its name to Silverthorne Production Company (Silverthorne) and commenced operations in the oil and gas industry. These operations were discontinued in 1989. Between 1989 and 1999, Silverthorne attempted to locate acquisition prospects and negotiate an acquisition. Silverthorne's pursuit of an acquisition did not materialize until August, 1999, with the acquisition of the assets of Inter-American Telecommunications Holding Corporation (ITHC), which was accounted for as a reverse acquisition. The surviving entity changed its name to Cognigen Networks, Inc. on July 12, 2000.

The Company is an Internet and relationship enabled marketer of long distance telephone and personal communications services. Revenue is generated in two ways. First, marketing commissions revenue is generated from a number of vendors who are represented on the Company's agent web sites and for whom the Company sells their products and services via contractual agreements. Second, telecommunications revenue is generated through sales of the Company's proprietary products and services through the Company's agent web sites.

Note 2 - Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of Cognigen Networks, Inc. and its subsidiaries, Cognigen Switching Technologies, Inc. (CST) through January 31, 2004 and Intandem Communications Corp. (Intandem) since February 1, 2004. See Note 8 regarding information regarding the sale of CST and Note 4 for information on Intandem. All intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, have been made to (a) the unaudited consolidated statements of operations for the three months ended September 30, 2004 and 2003, respectively, (b) the unaudited consolidated balance sheet as of September 30, 2004 and (c) the unaudited consolidated statements of cash flows for the three months ended September 30, 2004 and 2003, respectively, in order to make the financial statements not misleading.

The Company has not recorded a provision for income taxes for the three months ended September 30, 2004. The Company has net operating loss carryforwards to offset taxable income in this period.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for financial statements. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended June 30, 2004, included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The results for the three months ended September 30, 2004 may not necessarily be indicative of the results for the fiscal year ending June 30, 2005.

On November 21, 2001, the Company entered into a Stock Redemption Agreement with a stockholder, in which the stockholder agreed to sell to the Company 2,712,501 shares of the Company's common stock, at approximately \$.77 per share, which approximated market value, in exchange for potential future commissions of \$2,088,622 on certain customers, as defined in the agreement. The shares were purchased in December 2001. Deferred commissions payable are being paid out based upon commissions earned as defined in the agreement. The agreement does not guarantee that commissions will be earned. As of September 30, 2004, the remaining balance of deferred commissions payable was \$625,999. The Company has classified \$511,200 as an estimate of the current portion of this agreement based on historical commissions. After the \$625,999 of deferred commissions has been earned and paid to the stockholder, commissions will continue to be paid to the stockholder and recorded as marketing commissions expense in the statement of operations. Had the payments of \$122,547 for the three months ended September 30, 2004 been recorded as marketing commissions expense instead of a reduction of deferred commissions payable on the balance sheet, marketing commissions expense would have been higher by \$122,547. The Company does not anticipate recording these payments as marketing commissions expense until sometime in the year ending June 30, 2006.

Certain amounts in prior consolidated financial statements have been

reclassified to conform to the current presentation.

Note 3 -Note Receivable

As of September 30, 2004, the Company has a note receivable outstanding with a net book value of zero from American Communications, LLC (formerly known as American Internet Communications, LLC) in accordance with a \$300,000 Promissory Note and Agreement due in October 2004, originally recorded on the balance sheet at \$77,500. This note bears interest at 12% payable annually, is secured by the personal guaranty of the principals of American Communications, and was due October 4, 2004. This note was acquired by the Company in October 2002 as part of the agreement dated October 17, 2002 with Stanford Financial Group Company, Inc. (Stanford Financial) described in more detail in Note 6, Stockholders' Deficit. The Company agreed to payment on the note of \$100,000 plus \$2,000 in attorneys' fees as full satisfaction of the note, if paid by July 2004. All but \$20,000 was paid by the due date which put the agreement in default and the \$80,000 received was applied to interest on the original note and the remaining balance of approximately \$320,000 remains due and in default. The Company has filed a lawsuit against American Communications and the two guarantors of the note to attempt to collect the remaining balance due.

Note 4 - Acquisition of Intandem

On April 1, 2003, the Company and certain principals of Intandem entered into an agreement (Funding Agreement) pursuant to which the Company agreed to provide up to \$448,093 in a series of loans to Intandem. Effective February 1, 2004, by mutual agreement of the principals of Intandem and the Company, the Funding Agreement was terminated and a separate agreement, the Termination of Funding Agreement and Settlement Agreement (Termination Agreement), was entered into.

The Termination Agreement provided that the Company would convert notes receivable outstanding at the time of \$387,399 into 100% of the outstanding stock of Intandem in exchange for payments of \$10,000 per month for eight months, assumption of up to approximately \$45,000 in liabilities, cancellation of all employment contracts of the Intandem principals and cancellation of options to purchase common stock of the Company. As of September 30, 2004, \$474,149 had been funded under the Funding Agreement and Termination Agreement. Due to questions of recoverability of this amount and the remaining commitments under the Termination Agreement, a provision of \$494,149 was taken in the statement of operations in the year ended June 30, 2004.

In conjunction with the transaction with Intandem, a consultant was to be paid, under its consulting agreement with the Company, a commission that was being negotiated with the Company. In October 2004, the Company and consultant agreed that \$20,000 of a combination of stock and cash was owed by the Company to the consultant in connection with the Intandem transaction. However, because we bought Intandem, the consultant agreed to waive this commission.

Note 5 -Receivables Financing Arrangement

The balance of receivables financing arrangement as of September 30, 2004 is \$270,725. This represents the amount of commissions receivable that have been sold under an Accounts Receivable Purchase Agreement (Receivables Purchase Agreement) with a bank. The Receivables Purchase Agreement provides for up to \$1,250,000 in commissions receivable to be used as collateral for advances under the Receivables Purchase Agreement, of which 65% of the commissions receivable balances are available in cash advances to the Company. Interest charges are

1.3% per month on the commissions receivable balances used as collateral.

Note 6 -Stockholders' Deficit

On October 17, 2002 the Company issued 500,000 shares of 8% Convertible Series A Preferred Stock (Preferred Stock) to Stanford Venture Capital Holdings, Inc., an affiliate of Stanford Financial Group of Houston, Texas, for \$500,000. Each share of the Preferred Stock is convertible, at the option of the holder, into one share of the Company's common stock for a period of five years. At that time, the Preferred Stock is automatically converted to common stock. The Preferred Stock does not have voting rights and has a liquidation preference of \$1.00 per share. In conjunction with the issuance of the Preferred Stock, the Company paid \$30,000 in cash and issued 64,516 shares of the Company's common stock, valued at \$20,000, to a third-party consultant as a finder's fee.

Dividends on the Preferred Stock are cumulative at the rate of 8% per annum of the liquidation value, \$1.00 per share, are payable in cash, when and if declared by the Board of Directors, and are preferential to any other junior securities, as defined. The Company accrued for dividends of \$10,000 and \$10,000 for the three months ended September 30, 2004 and 2003, respectively.

As part of the agreement dated October 17, 2002 discussed above, Stanford Financial agreed to transfer to the Company, an approximate 32% interest in Miami based American Communications, a private company, in exchange for 400,000 shares of the Company's common stock, two-year warrants to purchase 150,000 shares of the Company's common stock at an exercise price of \$.50 per share and five-year warrants to purchase 350,000 shares of the Company's common stock at an exercise price of \$.75 per share. This transaction was completed on February 5, 2003 and the warrants were issued. The two-year warrants to purchase 150,000 shares expired unexercised in October 2004.

On February 3, 2003, the Company entered into a letter of intent with David Stone and Harry Gorlovezky, members of American Communications, pursuant to which Messrs. Stone and Gorlovezky indicated their intent to purchase the approximate 32% interest in American Communications that the Company acquired from Stanford Financial for a cash consideration of \$22,500. In addition, Messrs. Stone and Gorlovezky had the right, until June 10, 2003, to purchase the \$300,000 Promissory Note and Agreement due in October 2004 for a purchase price of \$77,500 in cash. The \$22,500 was received and the 32% interest in American Communications was delivered to Messrs. Stone and Gorlovezky. The option to purchase the \$300,000 Promissory Note and Agreement was not exercised and the Company agreed to accept \$100,000 plus \$2,000 in attorney's fees for full satisfaction of the Promissory Note if paid by July 2004. See Note 3.

Note 7 - Stock Options and Warrants

The Company has established the 2001 Incentive and Non-statutory Stock Option Plan (the Plan), which authorizes the issuance of up to 625,000 shares of the Company's common stock. The Plan will remain in effect until 2011 unless terminated earlier by an action of the Board. All employees, board members and consultants of the Company are eligible to receive options under the Plan at the discretion of the Board. Options issued under the Plan vest according to the individual option agreement for each grantee.

During the three months ended September 30, 2004, the Company did not grant to any employee, options to purchase shares of common stock of the Company.

As of September 30, 2004, the number of stock options outstanding under the Plan

was 475,000.

As of September 30, 2004, the number of stock options outstanding not under any plan was 25,000. 1,000,000 options exercisable at \$3.68 per share expired in August 2004.

As of September 30, 2004, there were 1,200,000 warrants outstanding that were exercisable into shares of common stock of the Company. In October 2004, 150,000 of these warrants that were exercisable at \$.75 per share expired unexercised.

Note 8 - Stock for Stock Exchange Agreement

On May 12, 2004, after approval by the Board of Directors, the Company entered into a Stock for Stock Exchange Agreement with Jimmy L. Boswell, David G. Lucas, Reginald W. Einkauf and John D. Miller (collectively the Principals) pursuant to which the Principals agreed to exchange with the Company a total of 800,000 shares of the Company's common stock owned by the Principals for all of the outstanding common stock of the Company's wholly-owned subsidiary, CST, and warrants to purchase 200,000 shares of the Company's common stock effective February 1, 2004. The closing occurred on May 21, 2004. At the closing CST entered into a Master Services Agreement (MSA) to provide the Company with telecommunications rating, billing, provisioning, customer care, commissioning and database management for a fee. The MSA is effective February 1, 2004 and goes for one year periods unless terminated by either party at the end of each period with a 30 day notice.

As part of the closing, CST entered into a new note with a then existing lender representing approximately \$223,000 in debt. All options to purchase common stock of the Company issued to CST employees were terminated except for the option to purchase 200,000 shares of the Company's common stock owned by Jimmy L. Boswell which option expired in August 2004 and was exercisable at \$3.68 per share.

Jimmy L. Boswell is the President and a Director of CST. David G. Lucas is the former chief financial officer and a Director of CST. Reginald W. Einkauf and John D. Miller are former officers and Directors of CST. Mr. Boswell and Mr. Lucas are former officers and Directors of the Company. The Principals and another person sold all of the outstanding stock of CST to the Company for shares of the Company's common stock in April 2000.

In conjunction with the Stock for Stock Exchange Agreement, goodwill with a net book value of \$2,893,029 was written off. With consideration of approximately \$26,000, calculated using the Black Scholes method of calculation for the 200,000 warrants, goodwill of \$2,893,029 and \$168,448 in negative equity that was assumed by the Principals, and the 800,000 shares of the Company's common stock that were repurchased from the Principals valued at \$.31 per share, the Company recorded a loss of \$2,502,583 on this transaction that was included in the statement of operations for the year ended June 30, 2004.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

Cognigen Networks, Inc. (we) is an Internet and relationship enabled marketer of long distance telephone and personal communications services. We earn revenue in

two ways. First, we earn commissions revenue from a number of outside vendors whom we represent on our agent web sites and sell their products and services via contractual agreements. Second, we earn telecommunications revenue through sales of our own proprietary products and services through our agent web sites.

We made a major strategic transition in our business profile and delivery of products and services over the past sixteen months. In addition to being historically successful at representing and selling the services and products of outside vendors, we are now selling multiple branded products and services whereby the customer and account are owned by us. We refer to these products and services as our proprietary products and services. The most significant impact of this strategic transition is that by billing our owned customer accounts, we generated approximately five to seven times as much revenue compared to commission revenue we receive from vendors.

Through the acquisition of multiple state licenses, billing capability and new distribution channels, we can grow revenue, maintain closer contact to our customers, and control bottom line retention and contribution to a greater degree.

We had net income of \$244,362 for the three months ended September 30, 2004. This net income in large part was derived from our actions taken during the past nine months to reduce costs and to diversify our product line. We are undertaking other initiatives aimed at providing our agents with more attractive and competitive product offerings, improving our proprietary products and services, and expanding our vendor relationships.

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

Total revenue for the three months ended September 30, 2004 was \$2,744,844 compared to \$2,726,072 for 2003. Marketing commissions revenue was \$1,246,221 for 2004 compared to \$1,495,454 for the prior year. Telecommunications revenue was \$1,498,623 for 2004 as compared to \$1,223,242 for the prior year.

Marketing commissions revenue for 2004 decreased \$249,233 from that of 2003 or 17%. This decrease reflects a trend that began in our first quarter of fiscal 2003 and continued into fiscal 2004. We believe this trend was in large part a result of the lack of new product opportunities for our agents, inadequate customer service and partly from our strategic transition previously explained. We have entered into agreements to market additional and new products that were and remain very consumer desirable. We have also emphasized customer service reducing our response time to customer inquiries and order verification. Marketing additional and new products and better customer service has helped stabilize marketing commissions revenue.

Telecommunications revenue increased \$275,381 for 2004 compared to 2003, or 23%. This increase resulted from a net increase in telecommunications revenue from new proprietary products and services being sold. Our proprietary customer base increased by approximately 15,000 customers. A large portion of those proprietary customers are small business or dedicated customers who have entered into service contracts with us for usually one to two year periods and who represent higher months usage than most residential customers. Part of the decrease in proprietary products and services resulted from our sale of CST to its principals effective February 1, 2004. As part of the sale, CST maintained approximately \$70,000 in monthly telecommunications revenue, approximately 50% from a conferencing product it switches through its facilities based switch and another 50% from a customer base which receives no new customers but is primarily a billing service based customer.

Marketing commissions expense decreased from \$1,002,483 for 2003 to \$854,056 for 2004, a decrease of \$148,427 or 15%. This decrease correlates to the decrease in marketing commissions revenue explained above. Had the payments to a shareholder described in Note 2 to the Consolidated Financial Statements been recorded as marketing commissions expense instead of a reduction of deferred commissions payable on the balance sheet, marketing commissions expense would have been higher by \$122,547. We do not anticipate recording these payments as marketing commissions expense until sometime in the year ending June 30, 2006.

Telecommunications expense increased from \$703,430 for 2003 to \$860,635 for 2004 or an increase of 157,205 or 22%. This increase is primarily a result of our strategic transition to sell more proprietary products and services. These products and services include those generated through our Intandem created relations which are paid at higher commission rates than those paid on marketing commissions revenue.

Selling, general and administrative expenses decreased \$411,819 for 2004 compared to 2003, or 35%. This decrease is largely attributed to decreases in consulting, legal and accounting fees of \$163,263, salaries and related benefits of \$151,294, advertising of \$31,024, and travel expenses of \$23,361. In addition, net decreases of between \$70,000 to \$80,000 occurred because of the sale of CST. The net decreases from the CST transaction were from the reduction in salaries, benefits and other operating expenses offset by fees paid to CST under the MSA agreement.

The decrease in depreciation and amortization of \$18,213 results from the sale of CST previously explained.

Interest expense for 2004 of \$13,268 is consistent with that for 2003 of \$10,504.

Liquidity and Capital Resources

We have historically funded our operations primarily from sales of securities and operations. As of September 30, 2004 we had cash and cash equivalents of \$132,177 and negative working capital of \$1,116,410. Cash provided by operations during the three months ended September 30, 2004 was \$83,978. Cash used in financing activities of \$159,922 included the payment of deferred commissions of \$122,547 and a decrease in the receivables financing arrangement of \$37,375.

We have a balance outstanding under a receivables financing arrangement as of September 30, 2004 of \$270,725. This represents the amount of marketing commissions receivable that have been sold under an Accounts Receivable Purchase Agreement (Receivables Purchase Agreement) with a bank. The Receivables Purchase Agreement provides for up to \$1,250,000 in marketing commissions receivable to be used as collateral for advances under the Receivables Purchase Agreement of which 65% of the marketing commissions receivable balances are available in cash advances to the Company. Interest charges are 1.3%, per month on the marketing commissions receivable balances used as collateral. After one year, the Receivables Purchase Agreement is from year to year unless terminated in writing by either party. The Company is in compliance with the terms and conditions of the Receivables Purchase Agreement.

Cash flows generated from operations and from our receivables financing arrangement were sufficient to meet our working capital requirements for the three months ended September 30, 2004, but may not be sufficient to meet our working capital requirements for the foreseeable future or provide for expansion opportunities. Currently, we are slowly reducing our average balances outstanding under our receivables financing arrangement. We have reduced costs and expenses by reducing personnel, reducing or eliminating unwarranted expenses

and have sold CST, our former subsidiary, which all combined have increased our cash flows in excess of \$50,000 per month. We are looking at various financing and equity opportunities to provide additional working capital or for expansion opportunities and continue to identify costs and expenses that can be reduced or eliminated. There can be no assurance we will be able to secure additional debt or equity financing, that we will be able to reduce or eliminate more costs and expenses or that cash flows from operations will produce adequate cash flow to enable us to meet all of our future obligations or to be able to expand. However, we believe that we will be successful in producing sufficient cash flows from all collective sources to continue for at least the next twelve months.

Forward Looking Statements

Certain of the information discussed herein, and in particular in this section entitled "Management's Discussion and Analysis or Plan of Operation," contains forward looking statements that involve risks and uncertainties that might adversely affect our operating results in the future in a material way. Such risks and uncertainties include, without limitation, our possible inability to become certified as a reseller in all jurisdictions in which we apply, the possibility that our proprietary customer base will not grow as we expect, our possible inability to obtain additional financing, the possible lack of producing agent growth, our possible lack of revenue growth, our possible inability to add new products and services that generate increased sales, our possible lack of cash flows, our possible loss of key personnel, the possibility of telecommunication rate changes, and technological changes and the possibility of increased competition. Many of these risks are beyond our control. We are not entitled to rely on the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, or Section 21E of the Securities Exchange Act of 1934 as amended, when making forward-looking statements.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(e) under the Securities Exchange Act of 1934) as of September 30, 2004. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, our disclosure controls and procedures are effective in timely alerting them to the material information relating to us and our consolidated subsidiaries required to be included in our periodic filings with the Securities and Exchange Commission.

In preparing our audit for the year ended June 30, 2004, our auditors identified potential deficiencies within our internal control framework which have the potential to result in a material control weakness. These potential control deficiencies relate to the manner in which we process transactions to record telecommunications revenue and related accounts receivable as our current processes and procedures require substantive manual intervention, estimation and reliance on several sources of information that are not integrated with our accounting system. We continue to analyze these potential control deficiencies and the actions needed, if any, to address these potential deficiencies.

(b) Changes in internal controls.

There were no significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that could

significantly affect these controls subsequent to the date of their evaluation.

Part II - Other Information

Item 1. Legal Proceedings

In September 2004, we filed a lawsuit against American Communications LLC (American Communications), David Stone (Stone) and Harry Gorlovesky (Gorlovesky) in the Circuit Court of the Twentieth Judicial Circuit in and for Dade County, Florida. In our complaint, we allege (1) that American Communications breached a settlement agreement by not making all of the \$100,000 of payments required thereunder to payoff a promissory note and agreement for \$300,000 that was assigned to and is owed to us and we demanded judgment of \$334,119 on the promissory note and agreement plus interest from May 10, 2004; (2) that we are owed \$81,000 for a dishonored check of \$20,000 written as the last payment due under the settlement agreement and (3) that Stone and Gorlovesky guaranteed the promissory note and agreement and must pay the amount due under the promissory note and agreement plus our attorneys fees, cost and expenses in collecting on the promissory note and agreement. American Communications and Stone and Gorlovesky have filed answers denying the claims in our complaint and setting forth certain affirmative defenses which we have denied.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a)
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a)
- 32.1 Certification of Chief Executive Officer required by Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

On September 23, 2004, we filed a Current Report on form 8-K, dated S 21, 2004. Under Item 2, we stated that we had issued a news release on our audited financial results for the year ended June 30, 2004. release was included as an exhibit under Item 9.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COGNIGEN NETWORKS, INC.

By: /s/ Thomas S. Smith

Date: November 12, 2004

Thomas S. Smith
President and Chief Executive Officer

By: /s/ Gary L. Cook

Date: November 12, 2004

 Gary L. Cook
 Chief Financial Officer

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